July 1st 2008 Rate Schedule Change Information

Employer's unemployment tax rates will go up effective July 1, 2008 to Rate Schedule IV. Each year an analysis is done by the Department to determine which of the five tax rate schedules will be in effect. This analysis is mandated by law. There are three basic steps used to arrive at the proper tax schedule. First, the balance in the unemployment insurance trust fund at the end of the last calendar year (in this case, December 2007) is divided by the total wages paid by employers who pay taxes into the trust fund during that same period (reimbursable employers are not included in the calculation of tax rates, since they don't pay taxes). The result is the current fund ratio. Next, the highest level of unemployment insurance benefit payments made during a twelve month period during the last 10 years is determined. That amount, which was paid out during the 12 months ending July 31, 2003, is divided by the total wages paid by taxpaying employers during the four quarters ending on June 30, 2003, to arrive at the benefit cost rate. Finally, the current fund ratio is divided by the benefit cost ratio. Dividing the current fund ratio by the benefit cost ratio gives an estimate of the number of years of benefits available in the trust fund to meet the costs during an economic downturn. If that ratio is between 1.00 and 1.49, as it is this year, then Schedule IV goes into effect for the 12 month period beginning July 1, 2008.

Because the highest benefit period in the last ten years has remained the period ending June 20, 2003, the benefit cost rate has not changed. What has changed is the current fund ratio, which has been decreasing over the last three years, primarily due to the decrease in the balance in the Vermont's trust fund. The tax rate schedule system was designed this way to ensure a healthy trust fund. The current model was very effective in keeping Vermont's unemployment insurance trust fund solvent for over twenty years. However, like many other states, Vermont's trust fund solvency is becoming more and more problematic, which has statutorily moved us into Rate Schedule IV.

Over the past several years, Vermont has paid out more in unemployment benefits than it has received in unemployment contributions. This is largely attributable to increases in the weekly benefit amount from the annual COLA and two legislatively mandated increases in the maximum weekly benefit during the last several years.

The annual review and adjustment of tax schedules was designed to avoid having to borrow funds to pay benefits. If Vermont's unemployment insurance trust fund runs out of money, unemployed workers would still get their benefits, but Vermont would be forced to borrow the money from the federal government and pay it back with interest. In cases where it has become necessary to borrow money, some states have levied extremely high surcharges on employer to rebuild their depleted trust fund.